Calendar No. 280

101ST CONGRESS *1st Session*	SENATE	REPORT 101-153

EXTENSION OF THE TIED AID CREDIT FUND OF THE EXPORT-IMPORT BANK

REPORT

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

TO ACCOMPANY

S. 1704

SEPTEMBER 29 (legislative day, SEPTEMBER 18), 1989.—Ordered to be printed

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SEPTEMBER 29 (legislative day, SEPTEMBER 18), 1989.—Ordered to be printed

Mr. RIEGLE, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

[To accompany S. 1704]

HISTORY OF THE LEGISLATION

On September 13, 1989, the Subcommittee on International Finance and Monetary Policy of the Senate Banking Committee, chaired by Senator Sarbanes, held an oversight hearing on the reauthorization of the Tied Aid Credit Fund of the Export-Import Bank of the United States. There were two panels of witnesses. The first panel consisted of Charles Dallara, Assistant Secretary of the Treasury for International Affairs; and John Macomber, President and Chairman of the Export-Import Bank. The second panel consisted of Garabed Armenian, Director of Government Finance for the Westinghouse Electric Corporation, on behalf of the National Association of Manufacturers and the Coalition for Employment Through Exports; Frank Kittredge, President, National Foreign Trade Council; and Stuart Tucker, Fellow, Overseas Development Council.

On September 20, 1989, the Senate Banking Committee marked up and ordered to be reported a bill to extend the expiration date of the Tied Aid Credit Fund of the Export-Import Bank from September 30, 1989 to September 30, 1991 and to authorize appropriations of $300 million for the Tied Aid Credit Fund. The bill also authorized appropriations of $20 million for fiscal year 1990 and $20 million for fiscal year 1991 for an interest subsidy pilot program for the Export-Import Bank.

BACKGROUND

Tied aid credits

Tied aid is the provision of assistance on concessional terms to a developing country that is tied to procurement of goods or services from the donor country. Such financing may be on a pure grant basis or in the form of mixed credits that combine Government grants, concessional Government loans, and commercial loans to produce lower than market-based interest rates and more lenient loan terms. When mixed credits are tied to the procurement of goods and services from the donor country, they are tied aid credits. The terms are often used interchangeably.

It has been U.S. aid policy over the last 20 years to view tied aid credits as a distortion of development assistance activities. Although the United States does tie substantial amounts of its agricultural and military aid to U.S. goods, it generally no longer ties its aid to American capital goods exports nor does the United States provide tied aid credits. This policy was underscored in 1973 when the United States largely abandoned capital projects as part of its foreign aid program in favor of assistance focused on basic human needs such as agricultural production, nutrition, health, and education. Tied aid credits are most frequently used by other countries to finance exports of capital goods.

The United States has had a consistent concern over the practice by other governments of linking development objectives with commercial interests in capital projects. Many developed countries focus their aid programs on major infrastructure projects which tend to involve the purchase of high value capital equipment in industrial sectors. These projects tend to have a high proportion of imported capital goods and to incorporate a high level of technology. The most prominent sectors are energy, telecommunications, and transportation. These capital development projects also have important commercial implications because they can establish technology standards that are favorable to future commercial sales by the companies of the donor countries. In other words, our trade partners use tied aid credits to gain competitive advantage in building market shares for goods that are important to our own efforts to increase U.S. exports.

U.S. efforts to restrict the use of Tied Aid Credits: The War Chest and the 1987 OECD Agreement

The U.S. has opposed using subsidized export financing and tied aid credits as marketing devices. It has consistently maintained that goods should be marketed on the basis of quality, price, and service and not through the inducement of subsidies. Starting in the 1970's, the United States led successful efforts within the Organization for Economic Cooperation and Development (OECD) to adopt the Arrangement on Guidelines for Officially Supported Export Credits to end competition on export financing terms. In the mid-1980's, the United States initiated negotiations specifically to increase the grant element tied aid credits, thereby raising the cost to the donor country of any tied aid or mixed credit offers and hopefully decreasing the use of tied aid credits for commerical purposes.

In an effort to gain bargaining leverage in international negotiations and to respond to the lost export sales resulting from foreign government subsidies, the Congress in 1986 amended the Export-Import Bank Act of 1945 and established the Tied Aid Credit Fund, known as the "War Chest", within the Export-Import Bank. In the words of the statute, the War Chest was established "For the purpose of facilitating the negotiation of a comprehensive international arrangement restricting the use of tied aid and partially untied aid credits for commercial purposes . . ." The War Chest sought to give the U.S. negotiating team leverage in its discussions at the OECD on the tied aid credit issue.

The War Chest was authorized at a level of $300 million to be spend over FY87 and FY88. the Omnibus Trade and Competitiveness Act of 1988 extended the authorization to FY89. While the War Chest was a separately authorized fund, no resources were ever appropriated in addition to Eximbank's normal allocations. Instead, the amount of War Chest funds actually provided in any given year were an offset to, and subtracted from, Eximbank's available direct credit resources. Congress specified that these funds were to be administered by the Eximbank subject to the concurrence of the Treasury Secretary because of the latter official's responsibility for the international negotiations on tied aid credits.

In FY87 Congress made available $100 million of the $300 million War Chest resources, of which Eximbank utilized $78 million in support of approximately $244 million of U.S. export. The United States continued its policy of persuading OECD countries to tighten the rules on tied aid credit use by targeting War Chest resources toward competitor governments that impeded progress toward reaching an international agreement. The typical transaction supported by War Chest resources was in markets that were dominated by either the Franch or Japanese (the two governments most reluctant to conclude a tied aid credit agreement), and was for projects that were clearly commercial in nature. The United States objective was to raise the minimum grant element of tied aid credits from 25 percent to 50 percent, thereby significantly raising the cost to a country for using tied aid credits.

In the first quarter of 1987 OECD members agreed to some substantial revisions in the Arrangement regarding mixed credits. The cost of providing tied aid credits was increased by raising the minimum grant element from 25 percent to 35 percent, and the method of calculating the grant level was revised to more accurately reflect the cost of providing tied aid credits. The conclusion of the 1987 OECD agreement led to a shift on policy that resulted in a more restricted use of War Chest funds in FY88. The War Chest was no longer used as a negotiating lever but rather only as a means to ensure effective implementation of the tied aid credit agreement. Specifically, War Chest funds were used in FY88 only in response to violations of the new tied aid agreement. As a result, Eximbank used only $7.6 million of the available $110 million War Chest funds in FY88, supporting $34 million of U.S. exports.

The Tied Aid Credit Study in the 1988 trade bill

The Omnibus Trade Act of 1988 required the Eximbank, in conjunction with other appropriate Government agencies, to submit to

the Congress a report identifying and analyzing the tied aid credit practices of other countries and making recommendations for dealing with such practices.

In April 1989 the Eximbank submitted the portion of the report analyzing the tied aid credit practices of other countries. The report concluded that capital goods exports lost by U.S. exporters due to a lack of access to markets dominated by tied aid credits range from $400 million to $800 million a year. Other sources estimate the losses to be significantly larger, from $2–4 billion. The report also concluded that U.S. firms have lost exports in markets and sectors that have traditionally been U.S. oriented due to the tied aid credit practices of other countries, and that the 1987 OECD agreement had not resulted in a decreased use of tied aid credit by other countries.

In September 1989 the Treasury and the Export-Import Bank submitted to the Congress the portion of the report containing the administration's policy recommendations. In the report, the administration requested a one-year, $100 million reauthorization of the Tied Aid Credit Fund and proposed using the Fund actively in support of a new negotiating effort to place further multilateral restrictions on the use of tied aid credits that are used to gain commercial advantage. It recommended shifting the use of the War Chest from encouraging implementation of the 1987 agreement to supporting new negotiations. The report recommended that the War Chest and other tied aid fund should be targeted offensively in sectors and markets of commercial interest to U.S. exporters where tied aid credits are used extensively, as well as used defensively to match or overmatch tied aid credits provided by other countries on a case-by-case basis when it serves U.S. negotiating purposes.

EXPLANATION OF THE PROVISIONS

Reauthorization of the Tied Aid Credit Fund

Three principal considerations influenced the committee's decision to reauthorize the Tied Aid Credit Fund for 2 years at $300 million.

First, the 2 year authorization for the Tied Aid Credit Fund is designed to coincide approximately with the negotiating period needed to achieve a new agreement. Assistant Treasury Secretary Charles Dallara indicated in testimony before the Subcommittee on International Finance on September 13 that a new international agreement restricting the use of tied aid credits for commercial advantage could not be negotiated in less than 18 months. A 2 year authorization will give the Congress the opportunity to review the Tied Aid Credit Fund in 2 years in light of any new agreement or to review the matter if no new agreement is reached. As Assistant Secretary Dallara pointed out in his testimony, if negotiations do not proceed seriously and expeditiously, the administration may ask Congress for additional appropriations for the Tied Aid Credit Fund and may reconsider the ways in which the Fund's resources are targeted.

Second, the $300 million authorization figure, equal to what was authorized in 1986 but significantly above the administration's $100 million request, is intended to show a continuing commitment

by the Congress to the Tied Aid Credit Fund at a funding level which will make it a credible lever in negotiations and a meaningful resource to respond to the tied aid credit practices of other countries.

Third, the committee bill broadens the mandate for the use of the Tied Aid Credit Fund both to enforce compliance with the existing international agreements to restrict the use of tied aid credits and "to facilitate efforts to negotiate, establish, and enforce new or revised comprehensive international arrangements effectively restricting the use of tied aid and partially untied aid credits for commercial purposes."

The decision to broaden the mandate for the Tied Aid Credit Fund reflects a concern by the committee that the Fund not be used simply to enforce existing international agreements, but should be used aggressively to achieve new agreements that are actually effective in restricting the use of tied aid credit for commercial advantage. Both Assistant Secretary Dallara and Export-Import Bank President Macomber conceded in testimony before the International Finance Subcommittee that the administration has used the War Chest in 1988 and 1989 only to enforce the OECD agreement which had been reached in 1987. Since the agreement was largely complied with the War Chest was hardly used, even though the use of tied aid credits by foreign countries continued unabated. The committee was concerned that this should not occur again. For example, if the new negotiations achieve a set of negotiating goals but tied aid credits continue to be used for commercial advantage, the committee would expect that the War Chest will continue to be used so that U.S. companies are not disadvantaged.

Authorization of interest subsidy pilot program

In 1986, the Congress provided the Export-Import Bank with a two year authorization to provide interest subsidy payments on commercial bank loans. In part because of the restrictions placed on the use of the program by the legislation, the program was never implemented and the authorization expired in 1988.

The President of the Export-Import Bank, John Macomber, testified before the International Finance Subcommittee on September 13 that it would be worthwhile for the Bank to undertake a carefully prepared interest subsidy pilot program. The difficulty of administering such a program and uncertainty about the willingness of commercial banks to take part make a small, demonstration program advisable.

The potential advantage of an interest subsidy program is that it could permit the Bank to support a larger volume of export finance for a given budget allocation by the Bank. Under the Bank's direct loan program, all of a direct loan is scored on the budget. If the Bank provides an appropriately structured interest subsidy to a commercial bank loan, only the subsidy would be scored on the budget.

The committee believed it worthwhile to test the program on a pilot basis and provided a 2-year authorization of $20 million per year. In two years the committee will be able to make a determination, based on the results of the pilot, whether to continue or expand the program.

SECTION-BY-SECTION ANALYSIS

Section 1—Short title

This section states that the legislation may be cited as the "Export-Import Bank Amendments Act of 1989".

Section 2—Tied aid credit program

This section amends section 15(e)(1) of the Export-Import Bank Act of 1945 to authorize appropriations of $300 million for fiscal years 1990 and 1991 for the Tied Aid Credit Fund of the Export-Import Bank. It also amends section 15(a)(5) of the Act to expand the mandate for the use of the Fund to include both enforcing compliance with existing international agreements restricting the use of tied aid credits and facilitating efforts to negotiate, enforce, and establish new or revised effective ageements.

Section 3—Export-Import Bank interest subsidy payments

This section amends section 2(f) of the Export-Import Bank Act of 1945 to authorize appropriations of $20 million for fiscal year 1990 and $20 million for fiscal year 1991 for the Export-Import Bank to carry out a pilot interest subsidy payment program.

REGULATORY IMPACT STATEMENT

Pursuant to Rule XXVI, paragraph 11(b) of the Standing Rules of the Senate, the committee has evaluated the regulatory impact of the bill and concludes it would result in no net increase in the regulatory burden imposed by the Government.

CHANGES IN EXISTING LAW

The committee has determined that it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of Rule XXVI, paragraph 12, of the Standing Rules of the Senate, with respect to this legislation.

COST OF LEGISLATION

The committee requested a cost estimate of this legislation under the provision of Section 403 of the Congressional Budget Act of 1974. The cost estimate of the Congressional Budget Office appears below:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, September 25, 1989.

Hon. DONALD W. RIEGLE, Jr.,
Chairman, Committee on Banking, Housing, and Urban Affairs,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the attached cost estimate on the Export-Import Bank Amendments Act of 1989, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on September 20, 1989.

Should the Committee so desire, we would be pleased to provide further details on the attached cost estimate.

Sincerely,

ROBERT D. REISCHAUER.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: Unassigned.
2. Bill title: Export-Import Bank Amendments Act of 1989.
3. Bill status: As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on September 20, 1989.
4. Bill purpose: This legislation authorizes the appropriation of $300 million for tied-aid credits and $20 million per year for fiscal years 1990 and 1991 for a pilot program for interest subsidy payments on official export credits.
5. Estimated cost to the Federal Government:

[By fiscal year, in millions of dollars]

	1990	1991	1992	1993	1994
Authorization level	130	210	0	0	0
Estimated loan guarantees	200	200	0	0	0
Estimated outlays	16	45	36	22	10

Basis for estimate: The estimate assumes enactment of this legislation in October 1989. The fiscal year 1990 funding levels of $110 million for tied-aid credits and $20 million in interest subsidy appropriations are those contained in H.R. 2939, Foreign Operations, Export Financing, and Related Appropriations Bill, as passed by the Senate on September 20, 1989. The estimate assumes the balance of the authorized amounts will be provided in a fiscal year 1991 appropriation act.

Section 2 of the bill authorizes the appropriation of $300 million for fiscal years 1990 and 1991 for a tied-aid credit program. Tied-aid is foreign aid or concessional financing linked to the procurement of goods and services in the donor country. The Administration is preparing for a new round of negotiations with the other members of the Organization for Economic Cooperation and Development (OECD) on the use of tied-aid credits. The estimate assumes that tied-aid obligations will rise to the level experienced in fiscal year 1987, the year tied-aid appropriations were aggressively used in support of negotiations, or roughly 75 percent of the funds provided. The estimate assumes the tied-aid will be combined with Eximbank financing, and that disbursements will follow the historical pattern for Eximbank loans.

Section 3 authorizes the appropriation of $20 million per year for fiscal years 1990 and 1991 for interest subsidy payments. The estimate assumes the Eximbank will use the subsidy appropriation in conjunction with its guarantee authority to provide financing with the same terms as it provides through its direct loan program. The subsidy is estimated to increase demand for Eximbank guarantees by $200 million per year. Subsidy payments are assumed to be made periodically over the life of the loan. Outlays were estimated using the amortization schedules for Eximbank direct loans.

6. Estimated cost to State and local governments: None.
7. Estimate comparison: None.
8. Previous CBO cost estimate: None.
9. Estimate prepared by: Joseph C. Whitehill.
10. Estimate approved by: C.G. Nuckols for James L. Blum, Assistant Director for Budget Analysis.

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